

AR53

1977
Annual
Report



MELCOR
DEVELOPMENTS
LTD.

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HEAD OFFICE

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TRANSFER AGENTS AND REGISTRAR

Royal Trust Company
Edmonton, Toronto

AUDITORS

Willetts, Macmahon & Company

STOCK LISTED

Toronto Stock Exchange

LEGAL COUNSEL

Field, Owen



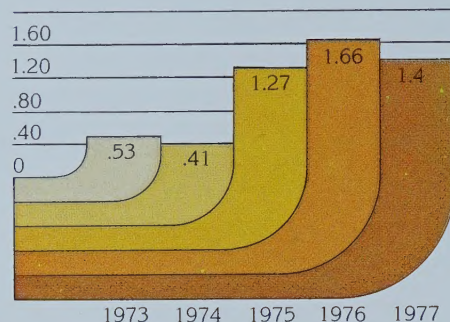


Financial Highlights

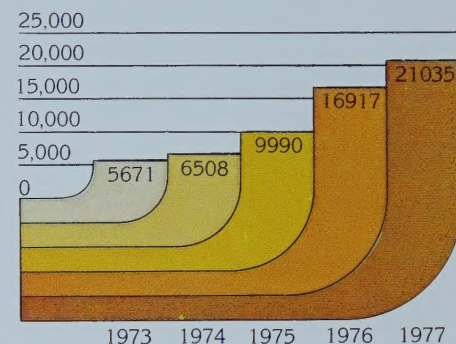
Total Assets	
Shareholders Equity	
Gross Income	
Net income — operations	
Earnings per share	
— From Operations	
— For Period	
Cash Flow per share	

1977	1976
\$68,476,000	62,024,000
21,035,000	16,917,000
33,776,000	26,936,000
3,996,000	4,400,000
1.45	1.66
1.89	2.78
1.81	2.04

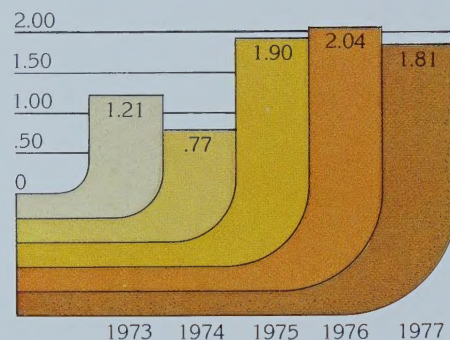
Earnings Per Share — Fully Diluted
In Dollars



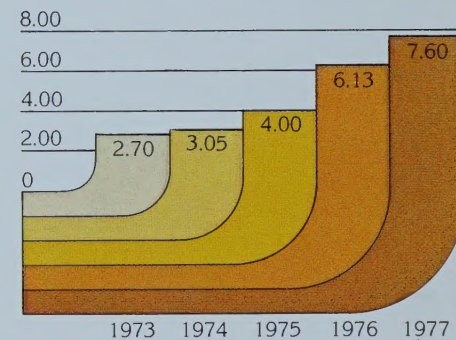
Shareholders Equity
In Thousands of Dollars



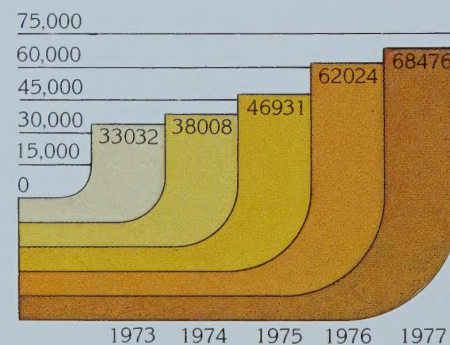
Cash Flow Per Share
In Dollars



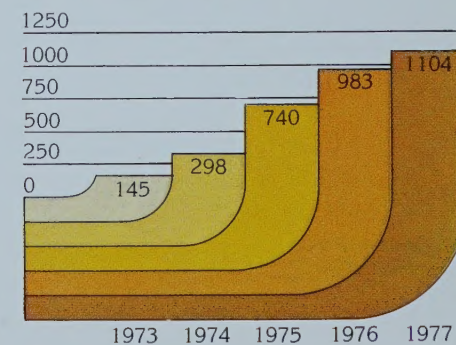
Shareholders Equity — Per Share
In Dollars



Assets
In Thousands of Dollars



Dollar Value of Dividend Payments
In Thousands of Dollars



Net income from our operations in 1977 was \$3,995,000 or \$1.45 per share compared to 1976 income of \$4,400,000 or \$1.66 per share. Though satisfactory, our performance did not reflect sales anticipated to close in 1977. They were subsequently completed and will be reported in 1978.

Extraordinary net income of \$1,205,000 or \$.44 per share, from the sale of a residential revenue property, increased income for the year to \$5,200,000 or \$1.89 per share.

Shareholders equity, after payment of \$1,104,385 in dividends, increased from \$16,916,000 to \$21,035,000. For the information of shareholders, management conducted an evaluation of the market value of the company's property holdings as at December 31, 1977. Based on this evaluation, the market value exceeds book value by \$58,800,000. After deduction of income taxes, the unrealized excess of market value over book value would increase shareholders equity to \$55,300,000 or \$19.99 per share.

Dividends

I am pleased to advise that the Directors have approved an increase in the dividend rate to 50¢ per share for 1978. Payments will be semi-annual: with 25¢ payable June 15, 1978 to shareholders of record at June 1, 1978 and 25¢ payable December 15, 1978 to shareholders of record at December 1, 1978.

Melcor's land development activities continue to contribute the major part of company profits. Our land is strategically located and our personnel have the ability to meet market needs through sound planning and co-ordination of our holdings. Over the past year we acquired additional land inventory for future development and obtained annexation of company lands, thereby facilitating development.

The house construction division had a difficult year with soft markets and large inventory carrying costs. We are confident, however, that the expected strengthening in markets and the abilities of our personnel will make 1978 a more successful year and provide a strong base for future growth.

The Revenue Properties Division commenced construction of an office building and two warehouses in 1977. These properties, to come on stream in 1978, will add more revenue and stability to Melcor income.

There is more detailed information on each division later in our report.

In acknowledging the retirement of Mr. W. G. Bennet from the Board of Directors, we add our deep appreciation for his contribution to the growth of this company.

We are confident that 1978 will be a good year for Melcor. We have an ample supply of serviced land and housing; and we will continue to develop revenue producing real estate and acquire more raw land. We also plan to expand operations into the attractive markets of the southwestern United States.

In recognizing the importance of our personnel in meeting company plans and objectives, we sincerely thank all employees for their contribution.

On behalf of the Board of Directors

T. C. Melton, B. Comm.
President.

Report to Our Shareholders





Sales and net income did not meet expectations for the year as several projects carried into 1978. However, due to annexations, planning approvals and purchases, the value of land held for future development did improve significantly.

During the year, 356 acres were acquired, and options were obtained on 682 acres in the Edmonton, Calgary, Leduc, Lethbridge and Red Deer areas. The Town of Spruce Grove approved the annexation of 630 acres owned by the company, and a major outline plan — affecting the balance of land owned by the company in northwest Calgary — was approved.

Calgary

The "Crowchild 2" Design Brief was approved by the city. This is the first step in the development process of our remaining land holdings in northwest Calgary. Planning is now underway on future residential communities and commercial centres for this area.

The Ranchlands community is progressing satisfactorily; our Ranchlands Estates has enjoyed a good response. Sales were completed, following year end, with the award of the 1978 Calgary Home Parade.

The third stage of Ranchlands is scheduled for development and sales in 1978 with completion of the community slated for 1979. The company is also completing negotiations with the City to develop in 1978 the final stage of our Dalhousie community totalling 105 single-family lots.

5 miles north of Calgary, on Highway 2, the company has assembled 680 acres, and is currently seeking approvals for the development of a light industrial park in the Municipal District of Rockyview.

The company also acquired 135 acres 2 miles north of the City in 1978, and is currently awaiting an annexation decision.

Red Deer

The company acquired 35 acres of raw land and a 72 - lot subdivision in the Village of Blackfalds, 5 miles north of Red Deer. The subdivision has been completed and sold and planning is now underway for the development of the 35 acres.

Lethbridge

The company holds a total of 200 acres immediately north of the City of Lethbridge. A decision by the Local Authorities Board on an annexation application is pending.

Edmonton

The company has purchased approximately 115 acres of future residential land in the City since the beginning of 1977. Development should commence during 1978 on 95 acres of this land in west Edmonton.

Spruce Grove

630 acres owned by the company was annexed to the Town effective January 1, 1978. A further application has been made to include an additional 160 acres owned by the company in the Town.

The Millgrove Estates community has been completed and sold. Servicing has commenced on the Woodhaven project, a joint venture with the Town of Spruce Grove in which the Company controls 1/3 of the 100 - lot project.

Approval has been obtained for the development of the Westgrove community which includes approximately 150 single-family lots and six acres of multi-family.

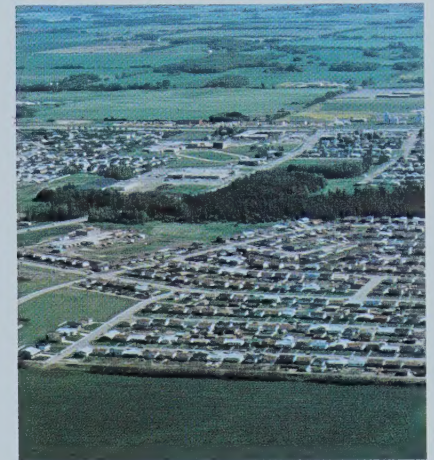
The Parkland Center commercial project has been serviced and 3 parcels sold for the development of a Shopping Centre.

Servicing of the Yellowhead Business/Industrial Park is proceeding on schedule with sales anticipated for early summer.

Land Development

In Spruce Grove, west of Edmonton, development has been initiated on the Yellowhead Business/Industrial Park. (The Park will be located in the large open tract immediately above the existing built-up areas shown in upper photo.)

The company is also actively involved in Nisku, near the Edmonton International Airport, with the development of a 160-acre industrial park (lower photo).



Leduc

160 acres was acquired adjacent to the Town of Leduc. Annexation approval was obtained on this land as well as an additional 80 acres of land owned by the company. An additional 80 acres acquired in 1978 for industrial development is part of a further annexation application.

The second stage in our South Park community of 60 single-family lots was developed and sold in 1977. Plans are proceeding for the development and sale of 97 lots in the third stage in 1978.

County of Leduc

The Beau Vista Estates country residential development continued to sell satisfactorily with the sale of the remaining 17 lots in this project expected in 1978.

The Sky Harbour Industrial Park Stage 2 was completed in 1977. To date we have sold 89% of the land in Stage 1 and 39% of the land in Stage 2.

Kamloops

Sales of single-family lots continued very slowly, although our inventory was reduced to 36 lots with the exchange of 17 lots for a 56-unit condominium apartment in Kamloops which is currently rented. The sale of these units is expected when the market improves.

Regina

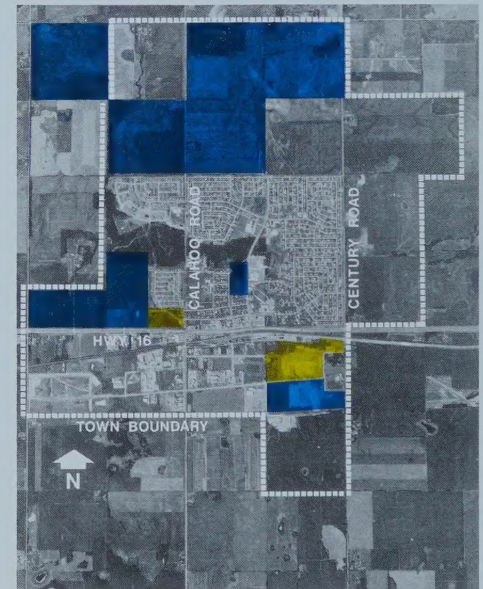
We continue to await an annexation decision on land under option adjoining the east boundary of the City of Regina on the Trans-Canada Highway.



1

Edmonton

85 Acres for future development
525 Acres under option (Melcor's interest, 175 Acres)



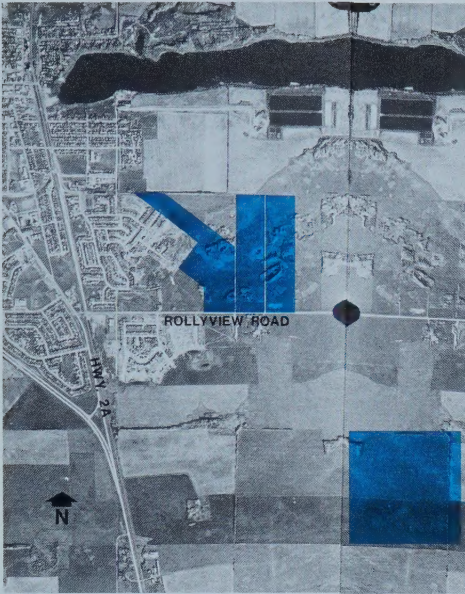
2

Spruce Grove

1,033 Acres for future development
66 Acres developed for commercial/Industrial

These homes have been recently completed in South Park, a Melcor developed neighbourhood located within the town of Leduc.





3 Leduc
294 Acres for future development



4 County of Strathcona
527 Acres for future development



5 Calgary
1,033 Acres for future development



6 Calgary Region
682 Acres under option

Maps

- Developed Land
- Land held for future development
- Land held under option

With the completion of Phase 1 in 1977, Ranchlands Phase 2 is now under way in Northwest Calgary. Visitor orientation and marketing activities are centred in the Ranchlands Information Pavilion.





The 1977 residential construction market was very competitive as builders were forced to reduce their excessive inventory levels carried over from 1976. This produced a substantial increase in our sales volume and a reduction in our profit margins. The number of houses sold and occupied in 1977 increased by 50% to 290, while the number of starts decreased by 44% to 167. Overall, our inventory position at the end of the year was reduced to a desirable level.

In the latter half of 1977, we engaged in our first AHOP project. While profit margins were modest, all 45 units in Regina were constructed and sold within four months.

Our "Homesteader Series" on zero sideyard lots in the Calgary Ranchlands sub-division did not live up to expectations. Customer resistance to this departure from conventional housing design resulted in a market demand well below anticipated levels. In the second stage, we are designing more conventional housing and are optimistic about 1978 sales.

The Edmonton residential construction market remained favourable in 1977. Profit margins were at an acceptable level and sales volume increased about 35%.

Our new office in Red Deer became fully operational in 1977 and profit margins were above average on the housing units sold.

Competitive housing markets are forecasted in Alberta and Saskatchewan during 1978. Therefore, market research and planning will be emphasized — giving a better definition of the market's potential.

In 1978, we will be more active in the construction of smaller homes in response to the increasing demand for affordable housing. In all four regions, we expect to increase our share of the affordable housing market.

We are optimistic that 1978 will provide an increase in the number of housing starts, an increase in the number of units sold and an increase in our profit margins.

Melcor Homes Ltd.

In 1977, Melcor Homes was involved in the "zero-lot-line" concept in Ranchlands (upper photo), and in conventional homes (lower right) such as this show home which includes the most popular interior features (lower left).



Revenue Properties

Revenue Properties continue to provide a satisfactory return. Construction is progressing on our largest new project, a seven storey office tower with main floor retail. Completion is scheduled for June, 1978, with strong interest indicated by prospective tenants who want to locate in this area, outside the downtown core. An attractive new warehouse with 34,400 sq. ft. has been completed in West Edmonton's industrial area, and leasing activities are underway.

Also scheduled for completion in 1978 is our new 100,000 sq. ft. office/warehouse development, currently under construction in Calgary.

Other sites are being considered for development, including a neighbourhood shopping centre in Regina.

The Division will continue to seek out good opportunities for the acquisition and/or development of income producing properties.

This seven-storey office and retail complex (below) at 124 Street and Stony Plain Road will be completed for Summer 1978.



An established revenue property "adjacent to Edmonton's Municipal Airport"



The new warehouse centre in West Edmonton is currently leasing.



Melcor Developments Ltd. and Subsidiary Companies
Financial Statements
For the year ended December 31, 1977

	<u>1977</u>	<u>1976</u>
Income		
Land sales	\$ 13,197,000	12,562,000
House sales	17,602,000	11,142,000
Revenue property income	1,647,000	2,028,000
Interest on agreements receivable	871,000	584,000
Mortgage interest and discounts	83,000	108,000
Interest on note receivable	202,000	290,000
Other income	174,000	222,000
	<u>33,776,000</u>	<u>26,936,000</u>
Expenses		
Cost of land sales	6,194,000	5,752,000
Cost of house sales	16,225,000	9,042,000
Revenue property operating expenses	638,000	751,000
Depreciation	81,000	106,000
Interest - Note 10	957,000	1,157,000
Operating and administrative - Note 11	2,148,000	1,811,000
	<u>26,243,000</u>	<u>18,619,000</u>
Income before income taxes and extraordinary items	<u>7,533,000</u>	<u>8,317,000</u>
Provision for income taxes		
Current	2,492,000	3,030,000
Deferred	1,045,000	887,000
	<u>3,537,000</u>	<u>3,917,000</u>
Income before extraordinary items	<u>3,996,000</u>	<u>4,400,000</u>
Extraordinary items - Note 13	<u>1,209,000</u>	<u>2,961,000</u>
Net income for the year	<u>5,205,000</u>	<u>7,361,000</u>
Retained earnings, beginning of year	<u>13,977,000</u>	<u>7,598,000</u>
	<u>19,182,000</u>	<u>14,959,000</u>
Dividends	<u>1,104,000</u>	<u>982,000</u>
Retained earnings, end of year	<u>\$ 18,078,000</u>	<u>13,977,000</u>
Earnings per share		
Net income before extraordinary item	\$ 1.45	\$ 1.66
Net income for the year	\$ 1.89	\$ 2.78

**Consolidated
Statement of
Income and
Retained Earnings**

Consolidated Balance Sheet

ASSETS	1977	1976
Accounts receivable	\$ 660,000	503,000
Agreements receivable on real estate sales	11,528,000	8,223,000
Mortgages receivable	440,000	634,000
Note receivable	2,344,000	2,890,000
Real estate for development and sale - Note 2	40,844,000	38,238,000
Revenue properties - Note 3	12,472,000	11,256,000
Other assets	188,000	280,000
	<u>\$ 68,476,000</u>	<u>62,024,000</u>

APPROVED ON BEHALF OF THE BOARD:

T. C. MELTON *Director*

W. G. HOLMES *Director*

LIABILITIES AND EQUITY	1977	1976
Bank indebtedness - Note 4	\$ 7,860,000	7,573,000
Accounts payable	2,858,000	1,719,000
Due to joint ventures - Note 5	462,000	680,000
Provision for real estate development costs	6,142,000	4,412,000
Income taxes payable	754,000	1,483,000
Agreements payable on real estate for development and sale - Note 6	17,895,000	18,020,000
Mortgages and agreements payable on revenue properties - Note 7	7,835,000	7,901,000
Deferred income taxes - Note 8	3,635,000	3,319,000
	47,441,000	45,107,000
Share capital - Note 9	2,957,000	2,940,000
Retained earnings	18,078,000	13,977,000
	21,035,000	16,917,000
	\$ 68,476,000	62,024,000

Auditors' Report

To the Shareholders of Melcor Developments Ltd.

We have examined the consolidated balance sheet of Melcor Developments Ltd. as at December 31, 1977 and the consolidated statements of income and retained earnings and source and use of cash for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the source and use of its cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Willetts Macmahon & Company
Chartered Accountants.

Edmonton, Alberta, March 23, 1978.

Consolidated Statement of Source and Use of Cash

	1977	1976
Source of Cash		
Operations	\$ 4,991,000	5,393,000
Sale of revenue properties	1,345,000	366,000
Sale of brokerage operations	—	3,540,000
Bank loans	420,000	1,536,000
Decrease in mortgages receivable	194,000	299,000
Funds withdrawn from joint ventures	—	882,000
Agreements payable on real estate for development and sale	3,508,000	6,768,000
Mortgages and agreements payable on revenue properties	3,777,000	423,000
Share capital issued	17,000	547,000
Decrease in net operating assets	329,000	—
Reduction in note receivable	547,000	109,000
	<u>15,128,000</u>	<u>19,863,000</u>
Use of Cash		
Increase in agreements receivable on real estate sales	3,305,000	1,917,000
Investment in note receivable	—	3,000,000
Increase in inventory of real estate for development and sale, less changes in provision for real estate development costs	877,000	12,909,000
Additions to revenue properties	5,395,000	370,000
Funds advanced to joint ventures	218,000	—
Payments on agreements payable on real estate for development and sale	3,632,000	741,000
Payments on mortgages and agreements payable on revenue properties	465,000	141,000
Debenture repayment	—	104,000
Dividends	1,104,000	982,000
Increase in net operating assets	—	126,000
	<u>14,996,000</u>	<u>20,290,000</u>
Increase (decrease) in cash	132,000	(427,000)
Bank overdraft, beginning of year	983,000	556,000
Bank overdraft, end of year	<u>\$ 851,000</u>	<u>983,000</u>

1 ACCOUNTING POLICIES

The company follows the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Melcor Developments Ltd. and all of its subsidiary companies as follows:

% Ownership

Melcor Developments (B.C.) Ltd.	100
Melcor Homes Ltd.	100
Trans-Canada Mortgage Ltd.	100
Trans-Canada Joint Mortgages Corporation Ltd.	98
Dollard & Gallagher Ltd.	100

The minority shareholders' equity in the net assets of Trans-Canada Joint Mortgages Corporation Ltd. is not significant and has been included in accounts payable on the consolidated balance sheet.

(b) Joint Ventures

Joint ventures in which the company has less than a 50% interest are accounted for on the equity basis.

(c) Land Development

(i) Cost of Land Held for Future Development

The following costs are capitalized as part of the cost of land:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Interest on general debt deemed applicable to the investment in land
- Direct costs such as commissions, legal fees and preliminary engineering costs, not including administrative overhead

(ii) Land Under Development

- The cost of the land is pro-rated to each phase of a project on an acreage basis at the time the company enters into a development agreement with the respective municipality
- The total costs of each phase of a project are allocated to individual lots on the anticipated selling price basis

- The unexpended portion of the estimated servicing costs, shown on the balance sheet as "Provision for real estate development costs", is recorded as a liability at the time the first sales from the phase are recorded
- Whenever an estimate is known to be materially different from the actual costs incurred, an adjustment is made to the cost of the lots and the liability for estimated completion costs

(iii) Recognition of Income

The company recognizes income on sale of land when a minimum of 15% of the sale price has been received and the sale is unconditional.

(d) House Construction

(i) Cost of Residential Lots for Future Construction

The following costs are capitalized as part of the cost of the land:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Direct costs such as commissions, legal fees and other carrying costs

(ii) Houses Under Construction

The following costs are included in the cost of houses under construction:

- Cost of the land
- Real estate taxes and carrying costs of the land until the house is sold
- Interest on debt specifically related to the land or the construction
- Materials, sub-contract costs, direct labour and other direct development costs, not including administrative overhead

(iii) Recognition of Income

The company recognizes income on sale of houses when the purchaser is entitled to possession and when the company has received the closing funds. The company includes in cost of house sales a provision for warranties to purchasers.

The company defers the recognition of income on condominium sales until it can give legal title to the unit purchaser and possession has taken place and the closing funds received.

(e) Revenue Properties

(i) Cost of Revenue Properties Under Development

The following costs are capitalized as part of the cost of the property until a 75% level of occupancy is achieved subject to a reasonable maximum period dependent upon the size of the project:

- Interest on debt specifically related to the development of the property
- Interest on general debt deemed applicable to the investment in the development
- Operating income and expenses
- Construction costs and other direct development costs

Initial leasing costs are capitalized until the property is fully rented.

(ii) Cost of Land Held for Future Development

The following costs are capitalized as part of the cost of the land:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Interest on general debt deemed applicable to the investment in the property
- Direct costs such as commissions, legal fees and other carrying costs

(f) Depreciation Policy

The company depreciates buildings using a 5% sinking fund method based on an estimated useful life of 50 years (35 years for frame construction). Other assets are depreciated using either the declining balance or straight-line method depending on the type of asset and its estimated useful life.

2 REAL ESTATE FOR DEVELOPMENT AND SALE

	1977	1976
Land Development		
Land held for future development		
Land cost	\$16,839,000	13,905,000
Options	104,000	109,000
Carrying costs and pre-development costs	4,002,000	3,163,000
	20,945,000	17,177,000
 Land developed or under development		
Land cost	1,438,000	1,734,000
Carrying costs	530,000	188,000
Development costs	6,175,000	4,461,000
	8,143,000	6,383,000
	29,088,000	23,560,000
 House Construction		
Houses under construction	7,554,000	10,581,000
Residential lots for future construction	4,202,000	4,097,000
	11,756,000	14,678,000
	\$40,844,000	38,238,000

The majority of the land held for future development has been acquired by agreement for sale. Title to this land will be obtained when payment on these agreements is made.

The total cost of the land held under option will be \$2,028,000 when the options are exercised.

The company also has a contingent asset arising from agreements which give the company the right to purchase one-third of the residential lots to be derived from the future subdivision of 550 acres of land in the City of Edmonton at a fixed price substantially lower than the present market value.

3 REVENUE PROPERTIES

	<u>1977</u>	<u>1976</u>
Revenue properties		
Land	\$ 968,000	1,405,000
Buildings and equipment	<u>7,279,000</u>	<u>8,933,000</u>
	<u>8,247,000</u>	<u>10,338,000</u>
Less:		
Accumulated depreciation	<u>174,000</u>	<u>264,000</u>
	<u>8,073,000</u>	<u>10,074,000</u>
Revenue properties under development		
Land	871,000	—
Development costs	<u>2,349,000</u>	<u>—</u>
	<u>3,220,000</u>	<u>—</u>
Land held for future development	<u>1,179,000</u>	<u>1,182,000</u>
	<u>\$12,472,000</u>	<u>11,256,000</u>

4 BANK INDEBTEDNESS

The company's bank loans are secured by a fixed charge on certain revenue properties and the note receivable, a general assignment of accounts receivable and a floating charge over other assets of the company. The current portion of the indebtedness is \$6,160,000. The balance of \$1,700,000 is payable at \$400,000 per year.

5 DUE TO JOINT VENTURES

The company's proportionate share of the assets and liabilities of joint ventures at December 31 of each of the following years was:

	<u>1977</u>	<u>1976</u>
Assets		
Cash	\$ 2,000	5,000
Agreements receivable on real estate sales	88,000	—
Real estate for development and sale - at cost	<u>18,000</u>	<u>17,000</u>
	<u>\$ 108,000</u>	<u>22,000</u>

Liabilities

Bank loans	\$ 322,000	227,000
Accounts payable	47,000	3,000
Income taxes payable	3,000	3,000
Provision for real estate development costs	<u>198,000</u>	<u>469,000</u>
	<u>570,000</u>	<u>702,000</u>
Due to joint ventures	<u>\$462,000</u>	<u>680,000</u>

The company is contingently liable for the total liabilities of the joint ventures in the amount of \$2,485,000, however, the total assets of the joint ventures are sufficient for satisfaction of these liabilities.

6 AGREEMENTS PAYABLE ON REAL ESTATE FOR DEVELOPMENT AND SALE

	<u>1977</u>	<u>1976</u>
Agreements payable on land held for future development	\$12,268,000	11,123,000
Agreements payable on residential lots held for future construction	1,208,000	1,307,000
Agreements payable and mortgage advances on houses under construction	<u>4,419,000</u>	<u>5,590,000</u>
	<u>\$17,895,000</u>	<u>18,020,000</u>

Principal payments due within the next five years on agreements payable on land held for future development are as follows:

1978	\$ 3,256,000
1979	1,451,000
1980	1,622,000
1981	1,383,000
1982	1,111,000
Subsequent	<u>3,445,000</u>
	<u>\$12,268,000</u>
Average annual interest rate	<u>9.2%</u>

Principal payments in excess of the amounts due will be made as title is required to initiate development of the various properties.

7 MORTGAGES AND AGREEMENTS PAYABLE ON REVENUE PROPERTIES

	<u>1977</u>	<u>1976</u>
Mortgages payable on revenue properties	\$5,732,000	4,099,000
Mortgages payable on revenue properties sold subsequent to the year end	—	3,379,000
Mortgages payable on revenue properties under development	2,103,000	—
Agreements on land held for future development	—	423,000
	<u>\$7,835,000</u>	<u>7,901,000</u>
Principal payments due within the next five years on mortgages payable on revenue properties are as follows:		
1978		\$ 63,000
1979		69,000
1980		76,000
1981		83,000
1982		431,000
Subsequent		<u>5,010,000</u>
		<u>\$5,732,000</u>
Average annual interest rate		<u>9.5%</u>

8 DEFERRED INCOME TAXES

On a cumulative basis, income taxes payable have been reduced by \$3,635,000 as a result of the following:

	<u>1977</u>	<u>1976</u>
Deferring profits on the sale of real estate for tax purposes	\$1,891,000	1,431,000
Interest and property taxes on real estate for development and sale deducted for tax purposes	646,000	398,000
Depreciation deducted for tax purposes in excess of the amount recorded in the accounts	598,000	994,000
Interest, property taxes and development costs on revenue properties deducted for tax purposes	481,000	441,000
Other items	19,000	55,000
	<u>\$3,635,000</u>	<u>3,319,000</u>

9 SHARE CAPITAL

Authorized — 3,000,000 shares of no par value

	<u>Shares</u>	<u>Consideration</u>
Issued		
December 31, 1976	2,761,000	\$2,940,000
Employee stock purchases	6,000	17,000
December 31, 1977	<u>2,767,000</u>	<u>\$2,957,000</u>

Agreements with employees which provide for the purchase of 1,200 shares, provided certain conditions are met, are outstanding. The consideration for these shares will be the market value of the shares at the time the agreements were approved.

10 INTEREST

	<u>1977</u>	<u>1976</u>
Debenture interest	—	3,000
Bank loan interest	\$ 644,000	634,000
Interest on mortgages and agreements payable on revenue properties	552,000	690,000
Interest on agreements payable on real estate for development and sale	1,063,000	773,000
	2,259,000	2,100,000
Less interest capitalized		
Real estate for development and sale	1,237,000	915,000
Revenue property land held for future development	65,000	28,000
	1,302,000	943,000
	\$ 957,000	1,157,000

11 OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are comprised of the following items:

	<u>1977</u>	<u>1976</u>
Land development administrative expenses	\$ 474,000	389,000
House construction administrative expenses	1,151,000	883,000
Revenue property administrative expenses	112,000	93,000
Mortgage services administrative expenses	21,000	19,000
General corporate expenses	390,000	427,000
	\$2,148,000	1,811,000

12 REMUNERATION TO DIRECTORS AND OFFICERS

Remuneration paid during the year to directors and senior officers of the company amounted to \$186,000 (1976 - \$210,000)

13 EXTRAORDINARY ITEMS

	<u>1977</u>	<u>1976</u>
(a) Sale of revenue properties	\$ 2,285,000	624,000
Income taxes		
- current	1,675,000	802,000
- deferred	(599,000)	(507,000)
	1,076,000	295,000
Net gain on sale of revenue properties	1,209,000	329,000
(b) Sale of goodwill of brokerage business, net of current income taxes of \$392,000	—	2,632,000
	\$1,209,000	2,961,000

14 ANTI-INFLATION LEGISLATION

The company is subject to the controls on prices, profit margins, compensation and dividends under the federal government's Anti-Inflation Program and is satisfied that it has complied with that program.

LAND DEVELOPMENT

	Map/ Page	Developed Land			Land held for future develop- ment	Approximate date of develop- ment
		Build- ing Lots	Residen- tial Acres	Commer- cial Industrial Acres	Acres	
Edmonton Region						
Edmonton	1/6	12			85	1979-1982
Spruce Grove	2/6	55		66	1,033	1978-1982
Leduc	3/7	42			294	1978-1985
Nisku	—	17		66		
County of Strathcona	4/7				527	1979-1990
Calgary Region						
Calgary	5/7	127	20		1,033	1978-1985
Red Deer Region						
Blackfalds	—	2			35	1978-1979
Lethbridge Region						
					66	1980
British Columbia Region						
Kamloops	—	36	13		111	1982
		291	33	132	3,184	
Land Under Option						
Edmonton Region	1/6				175	
Calgary Region	6/7				682	
Lethbridge Region	—				134	
		291	33	132	4,175	

REVENUE PROPERTIES

Residential Properties

Brookwood Manor, Spruce Grove	24 units	constructed in 1973-1974
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Commercial Properties

Kingsway Building, Edmonton	7,000 sq. ft.	purchased in 1967
Melton Building, Edmonton	116,700 sq. ft.	constructed in 1973-1974
Grove Plaza Shopping Centre, Spruce Grove	41,000 sq. ft.	constructed in 1972-1974
Corinthia Park Shopping Centre, Leduc	12,000 sq. ft.	constructed in 1975-1976
Airport Road Building, Edmonton	47,000 sq. ft.	purchased in 1977

Under Construction

Office Building, Edmonton	73,000 sq. ft.	completion in 1978
Office/Warehouse, Edmonton	34,400 sq. ft.	completion in 1978
Office/Warehouse, Calgary	99,000 sq. ft.	completion in 1978

Land For Future Development

Calgary

Forest Lawn	.98 acres	commercial retail
Downtown Central	.37 acres	office
Kensington Road	.34 acres	office
Franklin Park	6.24 acres	office/warehouse

Regina

University Park	6.3 acres	shopping centre
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RESIDENTIAL CONSTRUCTION

Houses Under Construction

Edmonton region	39 units	completion & sale 1978
Edmonton region - condominium	13 units	completion & sale 1978
Calgary region	44 units	completion & sale 1978
Regina region	46 units	completion & sale 1978
Red Deer region	19 units	completion & sale 1978
	<u>161</u> units	

Residential lots for future development

Edmonton region	102 lots	construction & sale 1978
Calgary region	63 lots	construction & sale 1978
Regina region	64 lots	construction & sale 1978-1979
Red Deer region	<u>43</u> lots	construction & sale 1978
	<u>272</u> lots	

Financial Review

Because the company is involved in several major activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contributions of each activity to the company as a whole.

In the following schedules, net income from operations before tax has been calculated for each division by deducting from the revenues of the division all direct costs and administrative expenses which can be specifically attributed to the division. Common costs which have not been allocated are the

cost of corporate debt - \$438,000 (1976 - \$480,000) and general corporate expenses (such as audit, public relations and corporate donations, directors' fees and senior management expenses, etc.) The allocation of these costs on an arbitrary basis to the divisions would not assist in the evaluation of the divisional contributions.

The cash flow from operations by division has been calculated by taking the after-tax contribution to net income of each division and adjusting for non-cash items such as deferred income taxes and depreciation.

Earnings - By Division *in thousands of dollars*

	1977			1976		
	Gross Revenue	Net Income	%	Gross Revenue	Net Income	%
Land development	\$ 15,861	7,545	89.4	14,548	7,789	78.3
Residential construction	17,602	215	2.6	11,142	1,217	12.2
Revenue properties	1,697	363	4.3	2,109	496	5.0
Other income	375	314	3.7	518	444	4.5
	<u>35,535</u>	<u>8,437</u>	<u>100.0</u>	<u>28,317</u>	<u>9,946</u>	<u>100.0</u>
Elimination of inter-division transactions	(1,759)	104		(1,381)	(764)	
	<u>\$ 33,776</u>	<u>8,333</u>		<u>26,936</u>	<u>9,182</u>	
Common costs		800			865	
		<u>7,533</u>			<u>8,317</u>	
Income taxes		<u>3,537</u>			<u>3,917</u>	
Net income from operations		<u>\$ 3,996</u>			<u>4,400</u>	

Cash Flow From Operations - By Division *in thousands of dollars*

	1977		1976	
	After-Tax Cash Flow	%	After-Tax Cash Flow	%
Land development	\$ 4,678	93.7	4,140	76.8
Residential construction	91	1.8	891	16.5
Revenue properties	500	10.0	517	9.6
Other	163	3.3	232	4.3
Common costs	(440)	(8.8)	(387)	(7.2)
Total cash flow from operations	<u>\$ 4,992</u>	<u>100.0</u>	<u>5,393</u>	<u>100.0</u>

Divisional Operating Review

	1977	1976	1975	1974	1973
Land Development					
Land sales	\$ 14,914	13,904	8,948	4,737	7,652
Cost of sales	7,841	6,369	4,834	2,421	5,248
	7,073	7,535	4,114	2,316	2,404
Interest earned	913	624	473	439	182
Other income	34	19	7	29	180
	8,020	8,178	4,594	2,784	2,766
Administrative expenses	475	389	242	203	123
Net income before taxes	\$ 7,545	7,789	4,352	2,581	2,643
Residential Construction					
House sales	\$ 17,602	11,142	10,764	4,540	1,374
Cost of sales	16,236	9,042	9,220	4,053	1,220
	1,366	2,100	1,544	487	154
Administrative expenses	1,151	883	520	338	97
Net income before taxes	\$ 215	1,217	1,024	149	57
Revenue Properties					
Rental income	\$ 1,697	2,109	1,986	839	492
Operating expenses	638	750	857	374	205
Interest	519	677	836	409	236
Depreciation	65	93	138	70	47
	1,222	1,520	1,831	853	488
	475	589	155	(14)	4
Administrative expenses	112	93	81	130	78
Net operating income	363	496	74	(144)	(74)
Gain (loss) on sale of properties	—	625	143	(12)	95
Net income before taxes	\$ 363	1,121	217	(156)	21

Statistical	1977	1976	1975	1974	1973
Earnings per share					
- Fully diluted					
- Before extraordinary items	\$ 1.45	1.66	1.27	.41	.53
- For period	1.89	2.78	1.30	.41	.53
Cash flow per share	1.81	2.04	1.90	.77	1.21
Dividends per share	.40	.36	.30	.14	.07
Shareholders Equity					
- Per share	7.60	6.13	4.00	3.05	2.70
- Total (000's)	21,035	16,917	9,990	6,508	5,671
Shares issued					
- End of year (000's)	2,766	2,761	2,500	2,133	2,102
Stock price range	\$7 7/8-4 1/4	5 1/4-3 5/8	4-2 1/8	4 1/2-1 7/8	4 1/4-3

Data in thousands of dollars unless otherwise indicated.

Five Year Review

Financial Position	1977	1976	1975	1974	1973
Commissions and sundry receivables	\$ 660	503	2,766	1,641	1,495
Agreements receivable	11,528	8,223	6,306	2,866	4,899
Mortgages	440	634	933	1,146	1,065
Note receivable	2,344	2,890			
Real estate for development and sale	40,844	38,238	23,003	18,550	12,841
Revenue properties	12,472	11,256	13,057	13,212	11,927
Other assets	188	280	866	593	805
Total Assets	<u>\$68,476</u>	<u>62,024</u>	<u>46,931</u>	<u>38,008</u>	<u>33,032</u>
Bank indebtedness	\$ 7,860	7,573	5,610	4,969	4,000
Accounts payable and other liabilities	4,074	3,884	5,090	2,705	2,197
Provision for real estate development costs	6,142	4,412	2,087	907	2,987
Agreements payable - real estate for development and sale	17,895	18,019	11,992	11,072	6,856
Mortgages payable - revenue properties	7,835	7,901	9,153	8,988	8,600
Debentures	—	—	104	556	834
Deferred income taxes	3,635	3,319	2,904	2,303	1,887
Share capital	2,957	2,940	2,393	1,737	1,666
Retained earnings	18,078	13,976	7,598	4,771	4,005
Total Liabilities and Equity	<u>\$ 68,476</u>	<u>62,024</u>	<u>46,931</u>	<u>38,008</u>	<u>33,032</u>
Operations					
Land sales	\$ 13,197	12,562	8,667	3,368	6,597
House sales	17,602	11,142	10,764	4,540	1,374
Revenue property income	1,647	2,028	1,986	839	492
Interest on agreements receivable	871	584	498	380	182
Mortgage interest and discounts	83	107	146	178	99
Interest on note receivable	202	290	—	—	—
Joint venture and other income	174	223	200	217	278
	<u>33,776</u>	<u>26,936</u>	<u>22,261</u>	<u>9,522</u>	<u>9,022</u>
Cost of land sales	6,194	5,752	4,074	1,414	4,453
Cost of house sales	16,225	9,042	9,221	4,053	1,220
Revenue property operating expense	638	751	857	374	205
Depreciation	81	106	147	131	89
Interest	957	1,157	1,224	848	468
Administrative and other	2,148	1,811	1,455	1,217	621
	<u>26,243</u>	<u>18,619</u>	<u>16,978</u>	<u>8,037</u>	<u>7,056</u>
Income from continuing operations	7,533	8,317	5,283	1,485	1,966
Brokerage income	—	—	1,713	769	761
	<u>7,533</u>	<u>8,317</u>	<u>6,996</u>	<u>2,254</u>	<u>2,727</u>
Income taxes	3,537	3,917	3,501	1,190	1,336
	<u>3,996</u>	<u>4,400</u>	<u>3,495</u>	<u>1,064</u>	<u>1,391</u>
Extraordinary items	1,209	2,961	72	—	—
Net income	<u>\$ 5,205</u>	<u>7,361</u>	<u>3,567</u>	<u>1,064</u>	<u>1,391</u>

Data in thousands of dollars unless otherwise indicated.

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